"A CRITICAL ANALYSIS OF VALUE ADDED REPORTING PRACTICES IN SELECTED INDIAN COMPANIES"

A

SYNOPSIS

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INTRODUCTION

The real profitability of any industry in any developing economy is generally assessed on the basis of its rate of return or on investment. In current scenario, an additional approach is being used by the economist and professional for the purpose of measuring the degree of survival and growth of an enterprise. Value Added Statement (VAS) is now being considered as a broad measure of judging the corporate performance than conventional measures based on traditional accounting system of an enterprise. The value added statement provides an additional information in respect of the wealth generated by an enterprise which is popularly known as "value created " by business during an accounting period. The concept of value added statement plays a specific role in the area of accounting. The role of accounting is generally considered to report the financial results to the various interested parties in a way they can best understand. Suojanen (1954) suggested the Value Added (VA) concept for income measuring as a way for management to fulfill their accounting duties towards interested group by providing more information than was possible from the income statement and balance sheet.

Value added statement can be defined as a statement of value created by a business during an accounting period. It's a positive difference between the value of goods or services produced and the value of services purchased. Conventional accounting system which generates information related to financial performance through profit & loss account or income statement generally emphasis on the interest of the shareholders. The profit & loss account or the income statement lacks in providing the information as regard to the extent of the value or wealth created by the other stakeholders which cannot be accessed from the profit & loss account. The concept of value added is much broader as value added is a measure which makes available to understand the contribution of other stakeholders like employees, government, financers etc. along with the owner in the process of generating wealth for an enterprise. An enterprise may exist without making profit but cannot survive and grow without generating the wealth or value. An enterprise not earning profit may become sick but not adding value may cause its death over the

period of time, hence the value added statement is considered as an important measure to judge the efficiency and the performance of any enterprises.

The concept of 'value added' has been in use in U.K and several European countries. Economists have used this term in macro sense for the computation of incremental generation of gross national products or gross domestic products. However accountants in U.K have periodically deliberated upon the concept and were of the view for it incorporation in the area of financial accounting practices in 1975. The Accounting Standard Board (ASB) of U.K advocated the publication of value added statement along with the convention Annual Corporate Reports. Subsequently, large British companies included value added statement in their annual reports.

In Germany and France, the concept of value added was introduced in the national economy statistics. However in the national accounting context, value added has always been used as an indicator of the economic development. Value Added Reporting is becoming increasingly popular in Australia and Singapore. In Australia, the companies in absence of any statutory obligation on the part of companies to present value added statement in their annual reports, it has been found that a majority of the Australian companies have adopted a disclosure practices in respect of value added statement . Although in USA, companies have not included the value added information in their annual reports, but it has been strongly felt that the statement must be made available to the users (Cruns, 1982, Riahi Belkaoui, 1992, 1996).

In South Africa, the publication of the value added statement has increased since the inclusion of the value added statement in 'The Corporate Report", since 1975 (Van Staden, 2000). In India publication of value added statement is a voluntary process of providing a supplementary statement. A very few progressive companies in India like SAIL, MNTC, CRL, BPCL, BHEL, CCI etc. in public sector and Indian Rayon, Infosys Technologies Ltd., Britannia Industries Ltd, Escorts Ltd, Global Telesystem Ltd. etc. in private sector, are producing value added statements along with their annual financial reports.

REVIEW OF LITERATURE

Value Added Reporting is a developing concept which has gained momentum in past decade. Few studies which have been conducted in context to value added reporting have been studied which are as follows:

These studies have been classified as follows:

- **Studies at National Level**
- **Studies at International Level**

Studies at National Level

Davada, R. H., (2012) has carried out research on "*Social Responsibility of Tata Consultancy Services Ltd. through Value Added Reporting"* which focuses that value added is meaningful measure of corporate performance rather than conventional measures based on traditional financial accounting and can be particularly useful for employees' oriented approach, which will be more fruitful discussion with employees and can be especially useful in productivity arrangements.

Nandi K. C., (2011) has conducted the research on *"Performance Measures: An Application of Value Added Statement."* with an objective to evaluate the performance of 20 selected PSEs in India, taking five each from four core public sectors for the period from 1999-2000 to 2008-09.

Aruwa A.S. Suleiman., (2009*)* has studied on "*the worth of disclosures in the value added statement and pattern of value added distribution.***"** The study focuses on to establish the significance of value added reports, pattern of value added distribution and to examine whether the value added statement disclosures are useful in social reporting.

Mandal Niranjan, Goswami Suvarun., (2008) have worked on "*Value Added Statement (VAS) – A Critical Analysis a case study of Bharat Heavy Electricals Limited***"** The paper

analysis to what extent the value added statement can supplement additional financial information to satisfy all the stakeholder.

Singh Pradeep ., (2008) in his article on *"Social Performance Through Value Added Reporting"-- An Empirical study of Lupin Lab*. Ltd. has analyzed that the management of Lupin Lab. Ltd. has served to the society very well as total value added has been distributed among the employees, government, financial Institutions, banker & shareholders, on the other hand it also contributed towards the growth and development of the company.

Parmar S. J., (2008) have studied on *"Value Added As A Performance Measurement Tool.(A combative study of GSFC & GNFC)."* Where an attempt has been made to analysis value added statement of GSFC & GNFC and found the net value added towards Employees, Government, Capital Providers and Owner.

Studies at International Level

Lee B.L., (2012) has studied on*" Output and Productivity Comparisons of the Singapore and Hong Kong Wholesale and Retail Trade Sectors, 2001–2008."* This paper employs the industry of origin approach to compare value - added and labor productivity of Singapore and Hong Kong's wholesale and retail sectors. Results from total factor productivity analysis of these two economies also suggest that Hong Kong's better performance was largely due to its ability to employ more educated and trained workers with limited use of capital.

Aldama, Zicari Luis Perera, Adrián., (2012) have worked on "*Value-added reporting as a tool for sustainability: a Latin American experience"* With an attempt to present a collection of ongoing experiences with a value-added reporting model in Latin America, positing its pertinence with regards to CSR accountability. The paper utilizes a qualitative methodology in which a series of semi-structured telephone interviews and/or e-mail questionnaires with managers from six reporting companies in Latin America (Chile, Colombia, Uruguay) was conducted.

Cahan S. F., Van Staden C. J., (2009*)* have conducted research on *"Black Economic Empowerment, Legitimacy and the Value Added Statement: Evidence from Post-Apartheid South Africa."* In this paper issues have been raised on why companies in South Africa voluntarily provide a value added statement (VAS) and they examine whether production of a VAS is associated with actual performance in labor-related areas and findings of this study is that performance is significantly and positively related to the voluntary publication of a VAS. The results suggests that performance and disclosure of a VAS are two elements of a strategy used by South African companies to establish their substantive legitimacy with labor.

Neves Júnior J. D. I., Araújo do C. D., Schneider Pereira C. D., (2009) have worked on "*Operating Cash Flow and Added Value: A Study of the Correlation between Liquidity and Distribution of Added Value in the Brazilian Textile Sector***."** This study brings the discussion to the liquidity of companies, perceived from liquidity indicators calculated by the Operating Cash Flow, is related to the distribution of added value demonstrated by the DVA. After analyzing the results, they concluded that liquidity has no significant influence on the distribution of wealth.

Malgwi C. A., Purdy D. E., (2009) wrote the article on "*A Study of the Financial Reporting Dichotomy of Managers' Perceived Usefulness of the Value Added Statement."* The article investigated whether the perceived usefulness of the Nigerian VAS conformed to what the managers, as preparers, had envisioned the VAS to accomplish. Using methods pioneered in the empirical literature about the effects of information provision on managers, senior managers in two companies were interviewed about their past, current, and future views concerning the VAS and findings had some strong support for shareholders as did the United Kingdom. The article also provides suggestions for further research with both VAS and other financial representatives.

Van Staden C. J., (2003) has carried out *"The Relevance of Theories of Political Economy to the Understanding of Financial Reporting in South Africa: The Case of Value Added Statements"* . The findings indicate that legitimacy theory and the political

economy of accounting theory provide the best explanation for the continued publication of the statement in South Africa. This study adds to the literature on legitimacy theory to a social disclosure, the publication of the value added statement.

Van Staden C. J .., (2001) In their research on" *The value added statement: bastion of social reporting or dinosaur of financial reporting?"* analyzed the worth of disclosure of value added statement by companies around the world .The social accounting theories of organizational legitimacy and political costs was used to explain the worth of value added statement. Surveys among the companies publishing the value added statement indicated that management had the employees in mind when they published this information and it highlights the need for unbiased and verified social disclosures that will be useful to all the stakeholders of the company.

Carlos Larrinaga., (2001) has conducted research on "*Social and Political Aspects of the Value Added Statement (Aspectos sociales y políticos del estado de valor añadido."* Through a historical and technical study of the value added statement, this article elucidate the social and institutional nature of accounting. The work analyzes extensively the technical aspects of the value added statement.

Stolowy Hervé, Haller Axel., (1999) have carried out a research on "*Value Added Accounting in Germany and France"* The aimed to the uses of the value added concept for different accounting purposes and its particular definitions in Germany and France. The researcher shows considerable differences especially in the use of the value added concept.

PURPOSE OF THE STUDY

The growth of the business depends on effective mobilization of funds leading to development and expansion of the business activities. The profit & loss account or an income statement to a certain extent highlights upon the performance of the companies based on the theory of profit margin. However, the profit & loss account or an income statement cannot be considered as the yardstick for the corporate performance in order to evaluate the corporate performance. Additional financial information is necessary which can supplement the need of various stakeholders, as such the value added technique is considered to be an effective tool for measuring the performance as stated by the various researchers in their studies. Hence, the present research has been undertaken to examine as to how and to what extent the value added statement can supplement additional financial information needs and to establish direct linkage of value added statement with the concept of performance of the business in Indian corporate sector.

OBJECTIVES OF THE STUDY

The present study will be carried out to achieve following objectives-

- To understand the theoretical framework of the concept of value added and value added statements.
- To examine the role of value added statement as a means of performance indicator.
- To carry out a comparative study of value added reporting practices among the selected companies.
- To establish the relationship between value added statement and other statements.
- To examine the role of value added statement in enhancing sustainability reporting practices of the selected companies.

RESEARCH METHODOLOGY

In order to achieving the above objectives the following research methodology will be adopted

➢ Sample size

The study will be carried out on the companies which were listed in BSE Sensex 30 as on 1st April 2013. From BSE Sensex 30, five companies will be selected on the basis of following criteria :

- ❖ The Companies must be bringing out their value added statement on or before 1st April 2009.
- ❖ The Companies selected on the above basis will be further ranked on the basis of their net worth as on 31st March 2009 for the purpose of their selection.

➢ Collection of Data

The study will be based upon secondary data. The secondary data will be collected from the annual reports, journals, magazines, news papers, web- sites, periodicals and other reports of selected companies**.**

➢ Tools for Analysis

For achieving the above mentioned objectives and for analyzing & presenting the information various financial and statistical tools will be used. The analysis will be carried by using value added statement analysis, Time series analysis, Regression analysis and Ratio analysis etc. Check list will also be prepared to analysis the data and various graphical tools for presentation and information will be used.

➢ Duration of Study

The data for the purpose of research will be considered for a period of five years commencing from financial year 2009-2010 to 2013-2014.

RESEARCH QUESTION & HYPOTHESIS OF THE STUDY

The following Research questions and hypothesis will be examined during the course of study.

Research Questions:-

1. To justify for incorporating value added figure in addition to net profit figure for the measurement of financial performance of a firm.

2. To measure whether the value added ratios throw a new light for measuring managerial performance of a firm.

Hypothesis:-

H_0: There is no significant relation between value added statement and sales, revenue, GVA, NVA etc.

H_1: There is significant relation between value added statement and sales, revenue, GVA, NVA etc.

➢ SPECIFIC METHODOLOGY

Following specific methodology will be used to fulfil the objectives**:-**

SR.NO.	OBJECTIVES	METHODOLOGY
1.	To highlight the theoretical framework of the concept of value added and value added statement.	In order to examine the theoretical framework of VAS an examination of financial statements, annual reports ,GRI reports will be carried out.
2.	To examine the role of value added statement as a means of performance indicator	To achieve this objective ratios related to value added will be analyzed to examine economic & social performance.
3.	To carry out a comparative study of value added reporting practices among the selected companies.	To achieve this objective the value added statements of selected companies will be compared.
4.	To establish the relationship between value added statement and other statements.	To accomplish this objective statistical tools will be applied to test the hypothesis.
5.	To examine the role of VAS in enhancing sustainability reporting practices of the selected companies.	To achieve this objective a check list will be prepared in accordance to GRI Framework for the purpose of examination.

- **PROPOSED CHAPTER PLAN**

Chapter Number	Chapter Name
Chapter-I	Introduction
Chapter-II	Value added statement- Theoretical framework
Chapter-III	Value added statement- Reporting practices
Chapter-IV	Performance evaluation through value added statement
Chapter-V	Comparative study of value added statement
Chapter-VI	Findings and Suggestions

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